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FM AMEMBASSY SANTO DOMINGO  
TO RUEHC/SECSTATE WASHDC PRIORITY 0998  
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY  
RUEHWN/AMEMBASSY BRIDGETOWN PRIORITY 2171  
RUEHCV/AMEMBASSY CARACAS PRIORITY 0905  
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E.O. 12958: N/A  
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SUBJECT: AFTER THE ELECTION, WHAT NEXT?

11. (SBU) Now that the presidential election is over, President Fernandez is turning to plans for his next term, the opposition is digging in its heels, and reformers are focusing on how to improve the democratic system before the congressional election of 2010. On economic issues, Fernandez faces several challenges, including increasing inflation caused by rising food and oil prices, and the high cost to the government of maintaining energy and food subsidies put in place before the election. The government is also concerned about the possible impact the economic slowdown in the U.S. may have on the local economy, especially on remittances, exports, and tourism. This concern is one of the reasons the government is considering a new IMF agreement, which is supported by the private sector as a means to control government spending. The government is expected to resume discussions with the IMF later this month.

#### Constitutional Change

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12. (U) Fernandez has not spoken publicly in any detail regarding his plans for his next term, except to say that he plans to reform the constitution. We expect to learn more from his inauguration speech on August 16.

13. (SBU) Fernandez will likely submit a package of constitutional amendments to Congress in August or September. This is an initiative that he launched in 2006, but had to suspend because of the election campaign. Fernandez has said that the current constitution does not adequately address civil rights, electoral supervision, presidential prerogatives, and judicial review. He has also hinted that he will submit an amendment providing the government a more defensible means to deny citizenship to children born to foreigners in the Dominican Republic, a change that could have major implications for the Haitian minority. Finally, while Fernandez has not spoken of it, there has been a good deal of speculation that he may seek to remove presidential term limits. Fernandez will need to negotiate constitutional changes with the opposition, since his PLD party holds the required two-thirds majority in the Senate, but not in the House.

#### Cabinet Changes

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14. (SBU) Regarding changes to the cabinet, one likely addition is Francisco Javier Garcia, who in 2007 resigned as Minister of Commerce and Industry -- where he worked closely with us to bring CAFTA into force -- to be Fernandez's campaign manager. One source told us that Garcia seeks the post of Minister of the Presidency (chief of staff), but Garcia was coy in a recent meeting with POLOFF. The Ministers of Environment, Commerce and Industry, and Public Works and Communications have only been in office for one year, making a change in those areas less likely. The same cannot be said for head of the Armed Forces (in office for two years) and Police (in his position for one year), given the propensity here to rotate positions in the security forces frequently.

#### Fighting Corruption?

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15. (SBU) We have seen some initial indications that Fernandez will take anti-corruption measures in his next term: Garcia told POLOFF that this was the case; at a recent USAID/GODR workshop on transparency, the government unexpectedly brought the press in to publicize their efforts; and, the Senate leadership has spoken publicly about dismissing the Chamber of Accounts (Camara de Cuentas; GAO-equivalent) for poor performance. (Note: While the Fernandez Administration's record on corruption is uneven and we have not heard any specifics on a possible new initiative, we will be following this issue closely given its importance.) USAID is poised to provide significant assistance to strengthen public institutions in areas where the government has shown some significant advances to date, such as access to information, public procurement, and the internal audit function.

#### The Opposition

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16. (SBU) On the night of the election, Fernandez issued a call for national unity, inviting the opposition to "work together as the Dominican people, without division, (to) confront the challenges to come." The main opposition candidate, Miguel Vargas Maldonado of the PRD party, has declined the President's offer. On election night, Vargas was responsible in conceding early, saying, "I accept and acknowledge the results." However, he added that, "I accept (the results) despite the fact that, in a significant way, these results reflect the shameless use of state resources to impose (the President's) re-election." (Note: While the use of government funds to favor the incumbent was a serious problem, we are not aware of any independent observers who believe that this practice determined the result of the election, given the 13 percent margin of victory.)

17. (SBU) The PRD has held several meetings of its leadership to assess the election campaign and map out future strategy. To date, there has been little variation from Vargas' message on election night, and the party's leaders have said that they will not cooperate with government initiatives. A recent party press release, for example, quoted Vargas saying that the PRD, "has the responsibility to maintain a firm opposition, within the frame work of the democratic system, and questions the moral authority of President Leonel Fernandez to convoke political parties and different sectors of the country to develop a plan of government." Party President Ramon Alburquerque added that the government's use of state resources leaves the PLD "victorious legally but defeated morally and, above all, corruptors of the people's conscience."

18. (SBU) Like many opposition parties, the PRD's ability to speak with one voice is complicated by the absence of a single top leader. In addition to Vargas and Alburquerque, former President Mejia and Secretary General Orlando Jorge Mera also command key positions in the party. We have heard conflicting reports of tension between Mejia and Vargas, who have been close in the past, over Vargas' supposed interest in maintaining a leadership role after the election campaign. All four men are believed to harbor presidential ambitions.

¶9. (SBU) While Vargas and the PRD received a respectable 41 percent in the election, the third-place finisher -- Amable Aristy Castro of the once-dominant PRSC party -- received less than 5 percent. The opposition has now lost three consecutive elections by wide margins: The 2004 presidential election, when Fernandez won by 23 points; the 2006 congressional election, when the PLD swept the PRD out of power in both houses (taking a two-thirds majority in the powerful Senate); and, the 2008 presidential race, in which Fernandez won in the first round of voting.

¶10. (SBU) We note that the U.S. interest is in a constructive opposition, irrespective of party, that is able to provide checks and balances while also working for the best interests of the country. While it is early yet, the state of the PRD and PRSC portends the possibility of very weak opposition that is unwilling to work with the government. Trends that we will be keeping an eye on include: Whether the PRD cooperates with government initiatives on a case-by-case basis; the role of the PLD-led Congress in providing checks and balances; and, factionalism within the PLD, which saw a major challenge to Fernandez's leadership in former Minister of the Presidency Danilo Medina's presidential primary run in ¶2007.

#### Reformers Respond

¶11. (SBU) While the 2008 election demonstrated that considerable progress has been made in strengthening Dominican democracy -- widespread election day fraud is now a thing of the past -- the campaign also showed that there is much work yet to be done. Two of the principal concerns expressed by domestic and international observers were the use of government resources to aid the incumbent and the virtual absence of regulations on campaign contributions.

¶12. (SBU) The reformers are responding. The Central Elections Board (JCE) and the government's Council for the Reform of the State (CONARE) have both proposed new Electoral and Political Party Laws intended to help prevent -- and if necessary punish -- these types of abuses. Among civil society, there is widespread support for increased regulation. We note that, while the political parties have blocked reforms of this type in the past, there may now be an opening, given that the PRD has indicated it would support the legislation. (Note: In 2007, the PRD joined the other major parties in scuttling a set of JCE rules that would have restricted campaign activities; however, it is possible that the party will reconsider its position given the likelihood that it will remain in the opposition for some time to come.)

#### "Insatiable Profit"

¶13. (SBU) President Fernandez's strong rhetoric in two recent speeches shortly after his re-election caught the attention of the Dominican press and other observers. On June 5, at the food security summit hosted by the Food and Agriculture Organization in Rome, Fernandez called on developed countries to provide more assistance to developing countries to combat rising food prices. One paragraph stood out from the rest of the speech (which was more mild): "If the developed countries continue to believe that one can only continue accumulating wealth and power through the pursuit of insatiable profit, speculation, greed, ostentation, arrogance, and lack of sensitivity to the problems of others, then without a doubt we can foresee that there will be a crisis of the model of civilization." On June 10, at the opening ceremony for a meeting of the UN Economic Commission for Latin America and the Caribbean, Fernandez made very similar remarks.

¶14. (SBU) Fernandez's comments can be viewed two different ways. On the one hand, his speech is problematic in that it coincided with unhelpful actions by the GRULAC bloc in Rome. According to State's International Organizations bureau,

GRULAC appears to have done Cuba's bidding in trying to embarrass the U.S. and European Union with objectionable language in the final declaration. GRULAC was our most formidable opposition, and it was extremely difficult to contain their nefarious vocabulary.

¶15. (SBU) On the other hand, aside from the one paragraph, Fernandez's speech is a typical call for action to assist poor countries who are suffering from a very real food crisis. In the address, he also laid out steps that his government is taking to address the food crisis, called on developed countries to lower trade barriers on food, and proposed the creation of a United Nations working group -- all of which are typical statements made by many leaders of developing countries. It should also be noted that these leaders are facing a good deal of pressure, from their constituents and political opponents, to produce results on the problem of rising food prices.

#### The Economy

¶16. (U) After winning reelection based in part on the economic growth and stability achieved during his four years in office, Fernandez is expected to generally follow the same economic policies in his next term. However, the increase in world food and oil prices is putting pressure on the local economy, which is also at risk of being affected by the U.S. economic slowdown. Now that Fernandez has returned to the country following his overseas visits to the Food Security Conference in Rome and to Spain where he met with potential investors, he is turning his attention to these pressing problems by meeting with his economic team and representatives of various sectors to develop an economic plan for the country.

¶17. (U) In the first quarter of the year, the government reportedly spent more than it received in revenues. The increase in spending went mostly toward salaries and other direct transfers such as subsidies. In the six months leading up to the election, the government announced subsidies or negotiated price freezes on milk, bread, rice, beans, onions, carrots, potatoes, garlic, tomatoes and plantains. The government later promised to review all subsidy policies following the election to determine which would remain in place. On June 13, the Secretary of Agriculture announced that consumer subsidies on five basic food items including, rice, beans, milk, chicken and eggs, would remain in effect; however, given the rise in fertilizer, gasoline prices, and animal feed (i.e., imported corn and soybeans), the producers of these commodities are demanding greater credit subsidies and higher producer prices.

¶18. (U) There is widespread disagreement on how effective the subsidies have been given that most of the payments were given directly to some producers and industry associations, primarily through subsidized credit, gasoline, and fertilizer process. Because of the lag in recuperating the losses of the staple products damaged by Tropical Storms Noel and Olga at the end of last year and the higher production costs this year, there were reports of shortages of many basic food commodities in the stores and many of the smaller grocery stores said they did not receive them at all during the past six months. Since the election, several private sector organizations have called for a change in the government policy to direct the subsidies to poor consumers who need them most. Some agricultural associations have recommended the lowering of taxes on imported agricultural inputs (e.g., fertilizers, agrochemicals, animal feed) and increasing subsidized credit in order to encourage more domestic production by farmers.

¶19. (U) The Dominican Republic is completely dependent on imported fuel and the sky rocketing price of oil has had a huge impact on the local economy. The Dominican Republic participates in Petrocaribe, with less than a third of its oil coming from Venezuela and only a portion of that coming

from Petrocaribe. However, the government claims that one of the reasons it is buying out Shell's stake in the sole refinery in the country is in order to increase its ability to import oil under the Venezuelan program. There is a high usage of diesel and liquid propane as well, in part, due to government subsidies for propane. Liquid propane use has dramatically increased because vehicle owners modify cars and buses to burn subsidized household cooking gas (LPG). Government attempts to end the liquid propane subsidy have been met with threats of a national transportation strike, although the government recently announced plans to place restrictions on who can access the subsidized product.

¶20. (SBU) In addition to the fuel subsidies, the government has felt the impact of high fuel costs in the electricity sector where large government subsidies are keeping the system running and the consumer prices from rising in line with the increases in world prices. In 2007, the government spent USD 650 million in energy subsidies and that figure is expected to exceed USD 1 billion in 2008 due to the high cost of fuel. The electricity sector is routinely identified as the most pressing problem facing the Dominican economy by economists. However, the government has lacked the political will to address the problem, including taking measures to reduce electricity theft by large consumers. Immediately after the election, the country manager for the largest U.S. investor in the electricity sector told the Ambassador that electricity generators were worried about possible government action against the privately owned generators as a means to find a solution to the problem. The private companies took a joint trip to Washington to meet with the international financial institutions to express their concerns.

¶21. (U) With the cost of doing business in the Dominican Republic rapidly rising and competition increasing due to CAFTA-DR, there have been repeated calls by the private sector for the government to cut spending before raising taxes. Some in the private sector are concerned that a new IMF program could lead to higher taxes as well. Many sectors, including agriculture and tourism among others, are calling for reductions in taxes in order to remain competitive. So far the government has not commented on how it will raise revenue to meet the cost of the subsidies and other public projects that have led to increased government spending. However, President Fernandez has already announced plans to expand the metro system, which has not officially opened yet, and to build a light rail system between Santo Domingo and Santiago, the second largest city.

¶22. (U) The Dominican economy is closely tied to the U.S. and, therefore, there is a strong sense of anxiety in the local market about the potential impact of the U.S. economic slowdown. The U.S. is the largest market for Dominican exports which have fallen over the last few years largely due to increased competition in the textile sector. Remittances which were over USD 2 billion in 2007 are expected to decrease throughout Latin American in 2008. On the bright side, tourism arrivals are up this year, including from the United States. However, it is not clear whether this trend will continue given the high cost of air fares and the reduction in air service to the country by U.S. carriers. American, Delta and Continental have all announced flight reductions starting in September, due in part to the high cost of operating in the DR, including a hefty fuel tax, but mostly as a result of their larger airline company restructuring. The tourism and export industries are extremely concerned about the economic impact of the reduction in flights and some are calling for the elimination of the airline fuel tax.

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